

# The evolving fiscal and liquidity stimulus packages in response to COVID-19 in Sub-Saharan Africa

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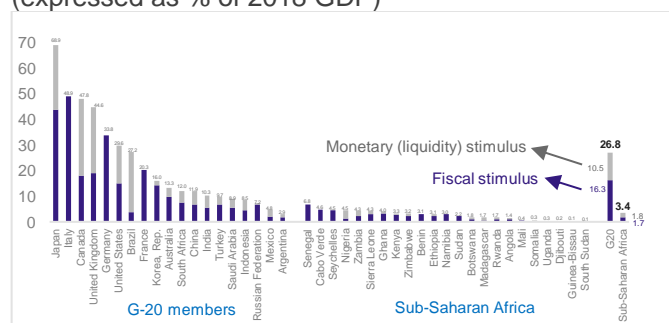
## Key messages

- Huge size disparities in economic stimulus packages persist between G20 (27% of GDP) and SSA (3% of GDP) countries.
- The financing of COVID-19 responses in SSA has evolved over time from accommodative monetary policy at the onset of the pandemic to more fiscal support measures but policy space remains very limited.
- The IMF and World Bank are providing funding to COVID-19 the economic policy response in most SSA countries but this so far falls short of what is needed.
- Given significant existing funding gaps and limited fiscal space, COVID-19 stimulus packages in SSA are mostly supporting immediate short-term responses to the crisis; funding for long-term 'building back better' recovery measures is elusive.
- 'Smarter' economic and social policies are needed to mitigate the impacts of the crisis and promote an inclusive and sustainable recovery.

## Introduction

COVID-19 is taking its toll on Sub-Saharan Africa (SSA). [To date](#), there have been 1.2 million infections and about 30,000 deaths on the continent. The pandemic has widely repressed mobility, disrupted economic production, decreased investment and remittance flows, created massive unemployment and pushed more people into poverty. Meanwhile, many governments increased spending in response to the health and economic crises but, given pre-existing vulnerabilities and limited fiscal space, compounded by an annual COVID-19 financing gap of [\\$100 billion](#), policy-makers have been grappling with not only mobilising funds but also allocating limited resources to measures that will create the most impact. Utilising the [ODI COVID-19 tracker](#), this note explores the evolution of SSA policy responses from the onset of the pandemic to the present, as well as recovery issues for policy-makers and stakeholders moving forward.

Figure 1. Economic stimulus in response to COVID-19 (expressed as % of 2018 GDP)



Notes: Economic stimulus packages announced in 2020 in response to COVID-19. Fiscal stimulus includes aid, grants and guarantees. Monetary stimulus includes only central banks' explicit monetary liquidity injection (e.g. through lending facilities, open market operations, purchase of government securities) and expected impact from lowering policy interest rates and other initiatives; does not reflect measures by regional central banks. Weighted average for G20 and SSA aggregates.

Source: ODI-SET country policy responses to COVID-19 tracker as of 12 August 2020

## 1. Huge size disparities in economic stimulus packages persist between G20 and SSA.

While no countries are escaping the negative impact of the pandemic on lives and livelihoods, not all have the resources to alleviate this impact. As of 12 August 2020, the economic stimulus (both fiscal and monetary policy) of the G20 countries in response to COVID-19 had reached 27% of GDP, compared with a meagre 3% of GDP in 23 SSA countries (Figure 1). In per capita income terms, this equates to about \$3,900 fiscal and liquidity support per person in G20 countries, compared with just \$52 support per person in SSA countries.

## 2. The financing of COVID-19 responses in SSA has evolved over time from accommodative monetary policy at the onset of the pandemic to more fiscal policy measures but policy space remains limited.

For many of the SSA countries the first line of defence was accommodative monetary policies. For instance, among the first countries in SSA to announce a response to COVID-19 (i.e. Ghana, Kenya, Nigeria and Rwanda), 84% of this response comprised an explicit<sup>1</sup> cash injection through a central bank response and only 16% was in the form of direct fiscal support. More recently, both G20 and SSA countries have been utilising a balance of both policy tools in their rescue packages (Figure 1). However, the impact of the monetary policy in SSA countries is highly questionable, given that transmission may be ineffective as a result of their underdeveloped and segmented financial markets. This highlights the primary role of the fiscal stimulus – which has proved challenging since many countries entered the pandemic with very limited fiscal policy space (e.g. nine

<sup>1</sup> In ODI's tracker, the total amount of monetary stimulus package includes only expected liquidity from measures that are explicitly stated by central banks. For instance, the tracker does not

measure how much liquidity is injected through lowering of interest rates unless the amount is explicitly estimated by the central banks.

countries were at [high risk of debt distress](#) and seven were [in debt distress](#) even prior the pandemic).

**3. The IMF and the World Bank are providing funding to the COVID-19 response in most SSA countries but this has so far fallen short of what is needed.** With limited fiscal resources to finance rescue measures, governments have reallocated existing budgets, taken out loans and sought debt relief from creditors. For example, South Africa's [500 billion](#) rand (\$2.2 billion) stimulus package over the next 18 months is to be financed by increasing the budget deficit and contingent liabilities, shifting priorities, drawing down funds from agencies with a surplus and seeking loans at preferential rates. For countries that do not have access to international capital markets, most are seeking funding from the IMF and the World Bank. As of September, the IMF had extended financial assistance and debt relief to 81 countries (38 in SSA). The World Bank had provided COVID-19-related project funding to 98 countries (33 in SSA) (Table 1). Despite this, IMF and World Bank financing is falling short of what is needed to fully finance the announced stimulus on the continent. On average, SSA countries' COVID-19 rescue packages amount to 3.4% of GDP (Figure 1), while IMF and World Bank financing to the region as of September amounted to only 1.1% of GDP and 0.4% of GDP, respectively (Table 1).

Table 1. IMF and World Bank COVID-19 funding

	IMF <sup>1</sup> (as of 16 September)				World Bank <sup>2</sup> (as of 11 September)			
	No. of countries	\$ million	% share in total announced funding as of 16 September	% of GDP <sup>3</sup>	No. of countries	\$ million	% share in total announced funding as of 11 September	% of GDP <sup>3</sup>
<b>Total</b>	85	88,935.4		2.0	98	16,201.6		0.2
<b>By region</b>								
East Asia & Pacific	5	869.7	1.0	0.8	13	2,480.3	15.3	0.1
Europe & Central Asia	12	7,485.8	8.4	2.5	16	1,523.1	9.4	0.1
Latin America & Caribbean	20	50,912.8	57.2	3.6	17	2,394.5	14.8	0.2
Middle East & North Africa	5	10,668.4	12.0	2.9	11	1,107.0	6.8	0.1
South Asia	5	2,588.1	2.9	0.4	8	5,770.0	35.6	0.2
Sub-Saharan Africa	38	16,460.6	18.5	1.1	33	2,926.7	18.1	0.4
<b>By income</b>								
Low-income	27	4,772.3	5.4	1.1	25	2,998.2	18.5	0.8
Lower-middle-income	29	26,545.2	29.8	1.3	38	9,507.8	58.7	0.1
Upper-middle-income	24	32,850.7	36.9	2.2	33	3,631.7	22.4	0.1
High-income	5	24,817.2	27.9	6.5	2	64.0	0.4	0.1

Notes: 1. IMF assistance to 85 countries as of 16 September 2020. Covers financial assistance, lending and debt relief. 2. World Bank assistance to 98 countries as of 11 September 2020. Covers COVID-19-related emergency projects, grants, loans and re-prioritised funding allocation from existing projects. For re-allocated funding of projects to support COVID-19 country responses, the amount was computed based on World Bank announcements or project documents with explicit amounts of re-allocated funding for COVID-19, such that the actual total may be bigger than the estimates here. 3. Weighted 2018 or latest GDP of recipient countries. Sources: Country allocation from IMF and World Bank websites; country groupings based on World Bank classification; GDP data from WDI.

**4. COVID-19 stimulus packages in SSA are mostly supporting immediate short-term responses to the crisis; funding for long-term 'building back better' recovery measures is elusive.** In the first few months of the pandemic, responses focused on short-term interventions ([characterised as 'red stimulus'](#)) to support domestic health systems, extend cash to the most vulnerable individuals and groups, and aid directly affected workers, firms and industries. For example, 80%

of Kenya's first stimulus package, announced in [March 2020](#), was largely for tax relief, reductions and refunds, and social protection. While Kenya's second stimulus package, announced in [May 2020](#), contains a '[blue stimulus](#)' for building infrastructure and a '[green stimulus](#)' to improve the country's environment, water and sanitation, these elements seem relatively insignificant (\$180 million) compared with the 'red stimulus' (\$2.3 billion). Kenya's case illustrates how low-income and SSA countries' budgets are hard-pressed already in enabling an immediate short-term response to the health crisis, and funding 'building back better' recovery options remains elusive.

Nevertheless, there is a noticeable wider sectoral scope in more recently approved World Bank COVID-19-related projects. For instance, in [September](#), an \$86 million World Bank credit was provided to the Malawi government to help MSMEs (particularly youth- and women-owned businesses) with the potential for high growth over the medium to long term in support of the country's recovery efforts. This highlights the vital role of international, regional and bilateral donors and partners in steering and filling the 'building back better' financing gap towards more sustainable and inclusive recovery and growth in the region.

**5. 'Smarter' economic and social policies are needed to mitigate the impacts of the crisis and promote an inclusive and sustainable recovery.** Given the constrained fiscal space, the uncertain effectiveness of monetary policy and the relatively limited donor support in SSA in response to the impact of COVID-19, policy-makers need to allocate the resources they have towards recovery efforts that can maximise and sustain positive economic results. However, to ascertain the next policy steps for low- and middle-income countries more generally, there are questions that need further investigation:

- How will different scenarios play a role in crafting policies?
- What are the trade-offs around short- and long-term government financing?
- What are the long-term impacts of the disruptions caused by the pandemic and how can these be abated?
- Is there an opportunity for intervention towards a green and gender-balanced stimulus?

These are a few of the questions to which the IDRC-funded ODI project covering Bangladesh, Kenya, Peru, Sri Lanka and Tanzania, under the Social and Economic Response and Recovery from COVID-19 (SERRC) initiative, is aiming to respond. We will provide emerging results from this project in our subsequent notes at our [ODI-IDRC dedicated page](#).

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